

North Dakota Public Employees Retirement System Overview

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Employee Benefits Programs Committee
October 27, 2021



NORTH DAKOTA
PUBLIC EMPLOYEES
RETIREMENT SYSTEM

NDPERS Overview

- I. NDPERS Agency
- II. Retirement Plans
- III. Group Insurance Plans



NDPERS AGENCY



NDPERS Agency

- NDPERS is created by NDCC § 54-52-03
- NDPERS is directed by a nine-member Board:
 - Chair (appointed by Governor) Mona Rindy
 - Attorney General Appointee Troy Seibel
 - State Health Officer or Designee Dirk Wilke
 - Elected Active Member Kim Wassim
 - Elected Active Member Casey Goodhouse
 - Elected Active Member Adam Miller
 - Elected Retiree Yvonne Smith
 - Legislative Appointee* Senator Dick Dever
 - Legislative Appointee* Representative Pam Anderson

*Legislators were added to the Board in the 2015 session

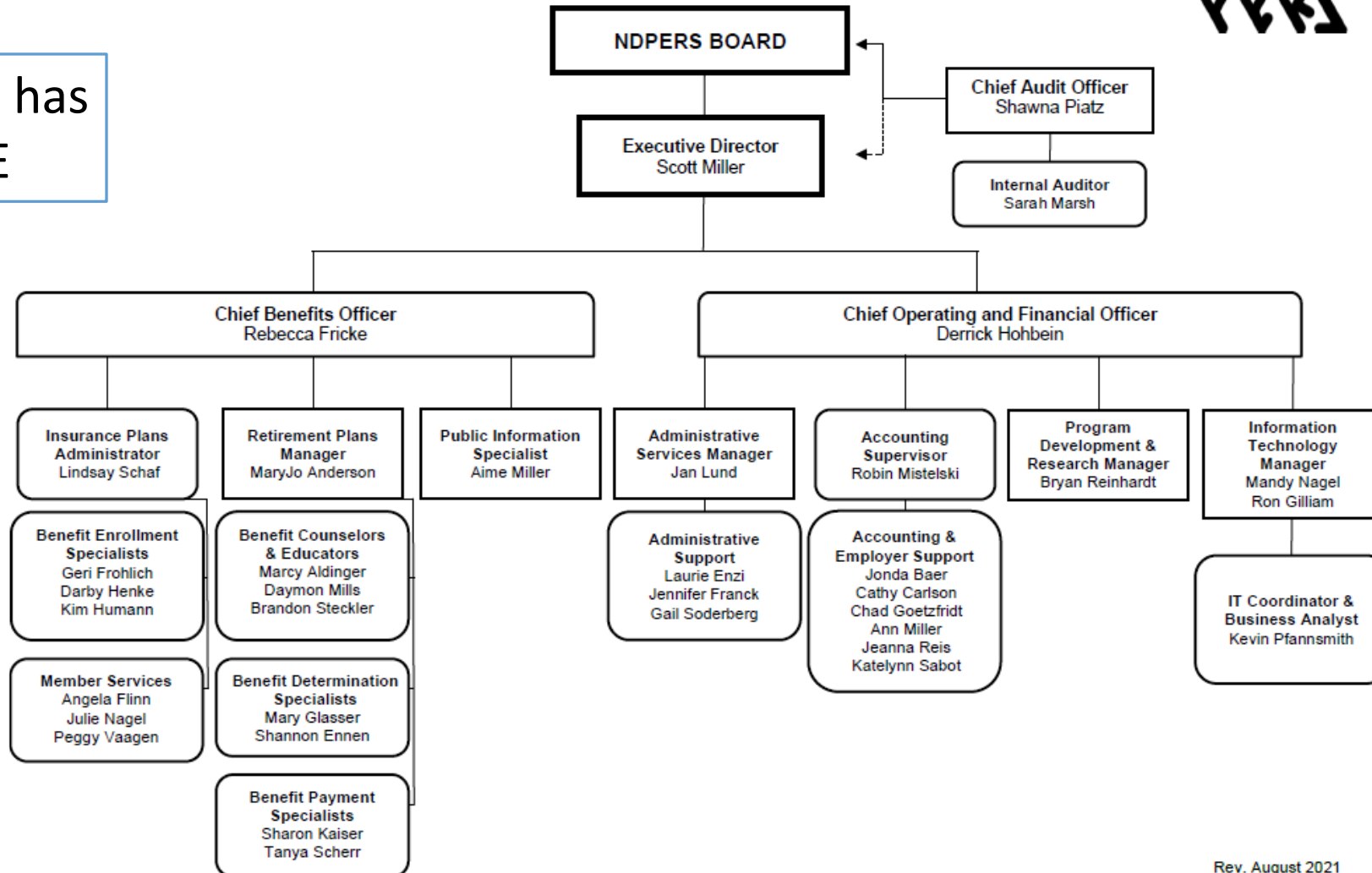


NDPERS Agency

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM ORGANIZATIONAL CHART



NDPERS has
35.5 FTE



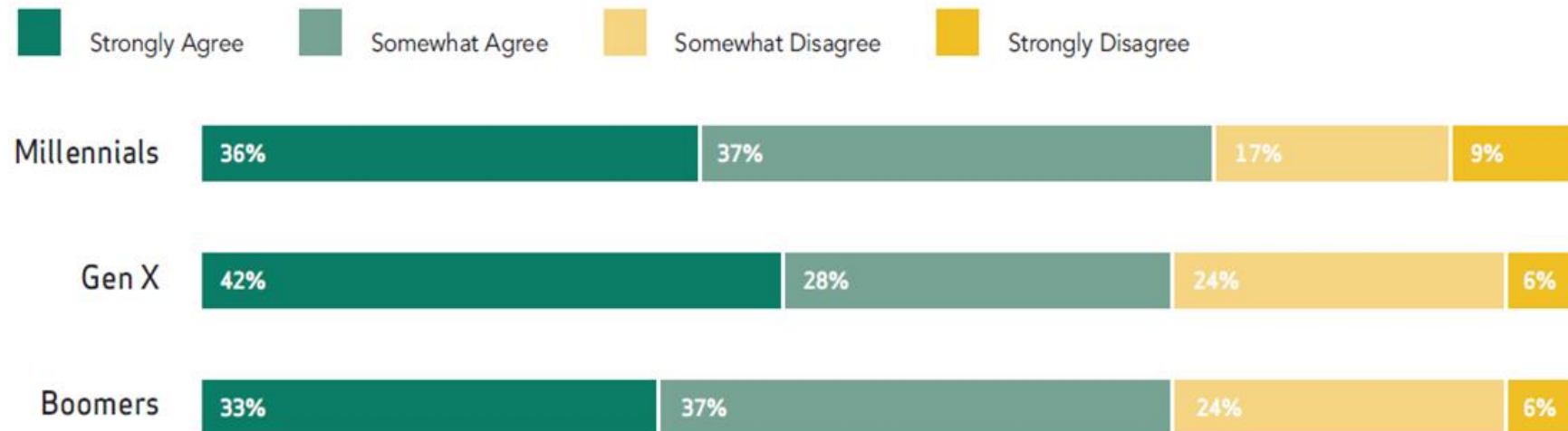
RETIREMENT PROGRAMS



Retirement Programs

Figure 70: **74% of Millennial state and local employees say a pension benefit is a major reason they chose a public sector job.**

To what extent do you agree or disagree with the following statement: A pension benefit is a major reason why I chose a public sector job.



Source: "State and Local Employee Views on Their Jobs, Pay and Benefits" by Tyler Bond and Kelly Kenneally, National Institute on Retirement Security, 2019



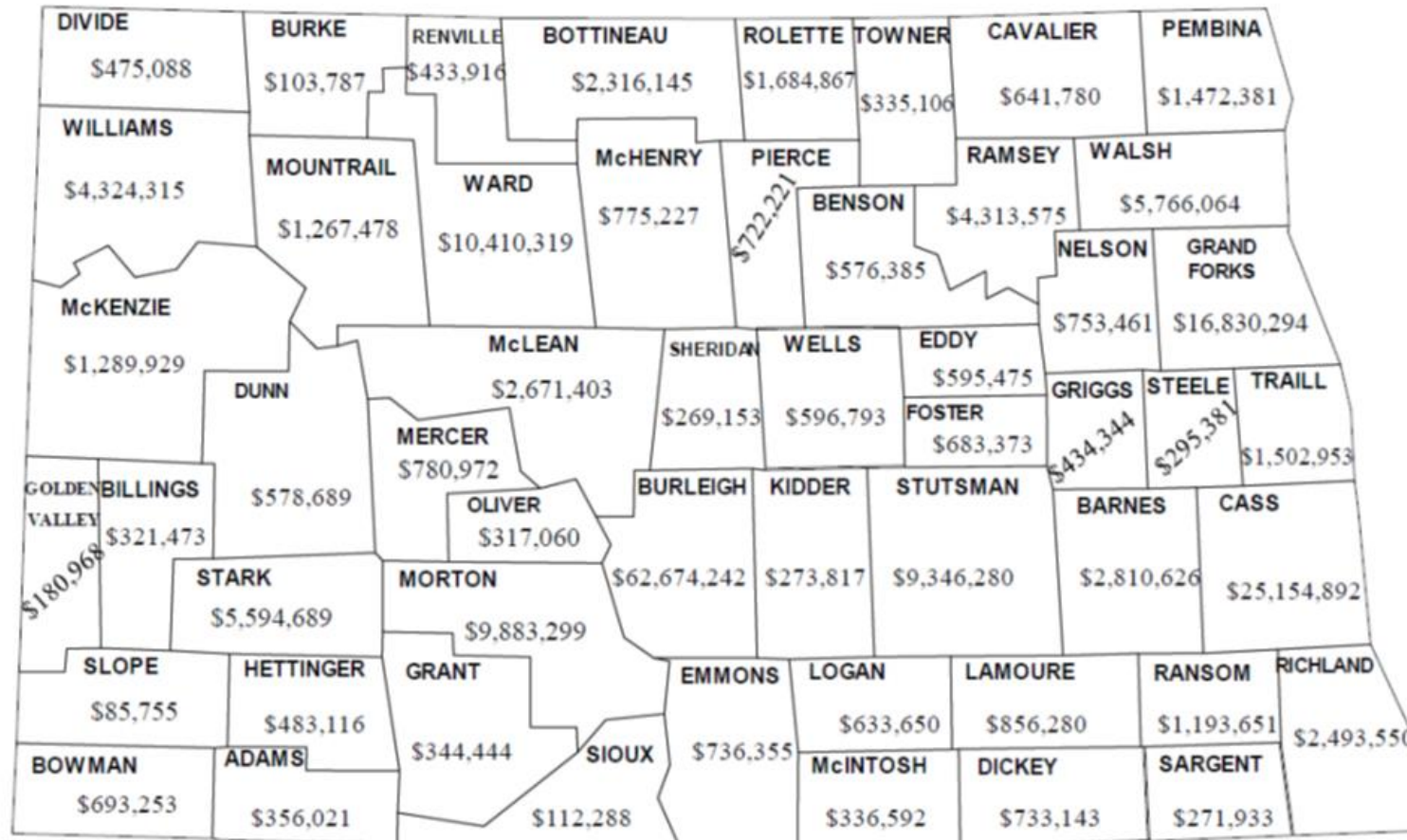
Retirement Programs

January 2021	RETIREMENT PROGRAMS								
	MANAGED AND ADMINISTERED BY NDPERS								
	TOTAL	Main		Public	Highway	Job	DEFINED	DEFERRED	HEALTH
	RETIREMENT	System	Judges	Safety	Patrol	Service	CONTRIBUTION	COMP	CREDIT
									(RHIC)
PARTICIPATING EMPLOYERS									
State	96	95	1	4	1	1	96	96	96
Counties	52	52		20				33	52
School Dist	128	128		1				23	128
Cities	90	88		21				38	90
Others	83	82		1				37	83
	449							227	449
EMPLOYEES									
State	10,553	10,181	58	74	153	3	85	6,615	9,183
Counties	4,357	3,807		548			1	805	3,325
School Dist	7,171	7,168		2			1	85	5,836
Cities	2,776	2,241		534			2	373	1,937
Others	797	787		11			0	306	684
Subtotal	25,654	24,184	58	1,169	153	3	89	8,184	20,965
Retirees	13,259	12,748	60	137	133	181			13,092
Subtotal	38,913	36,932	118	1,306	286	184	89	8,184	34,057
Deferred Members	13,887	13,383	1	459	43	1			
	52,800	50,315	119	1,765	329	185	89	8,184	34,057



Retirement Programs

NDPERS Retirees Annual Benefits 2020



Out-of-State - \$30,593,412

Total - \$219,381,663

Nearly \$190 million is paid to retirees within North Dakota every year, in every county in the state



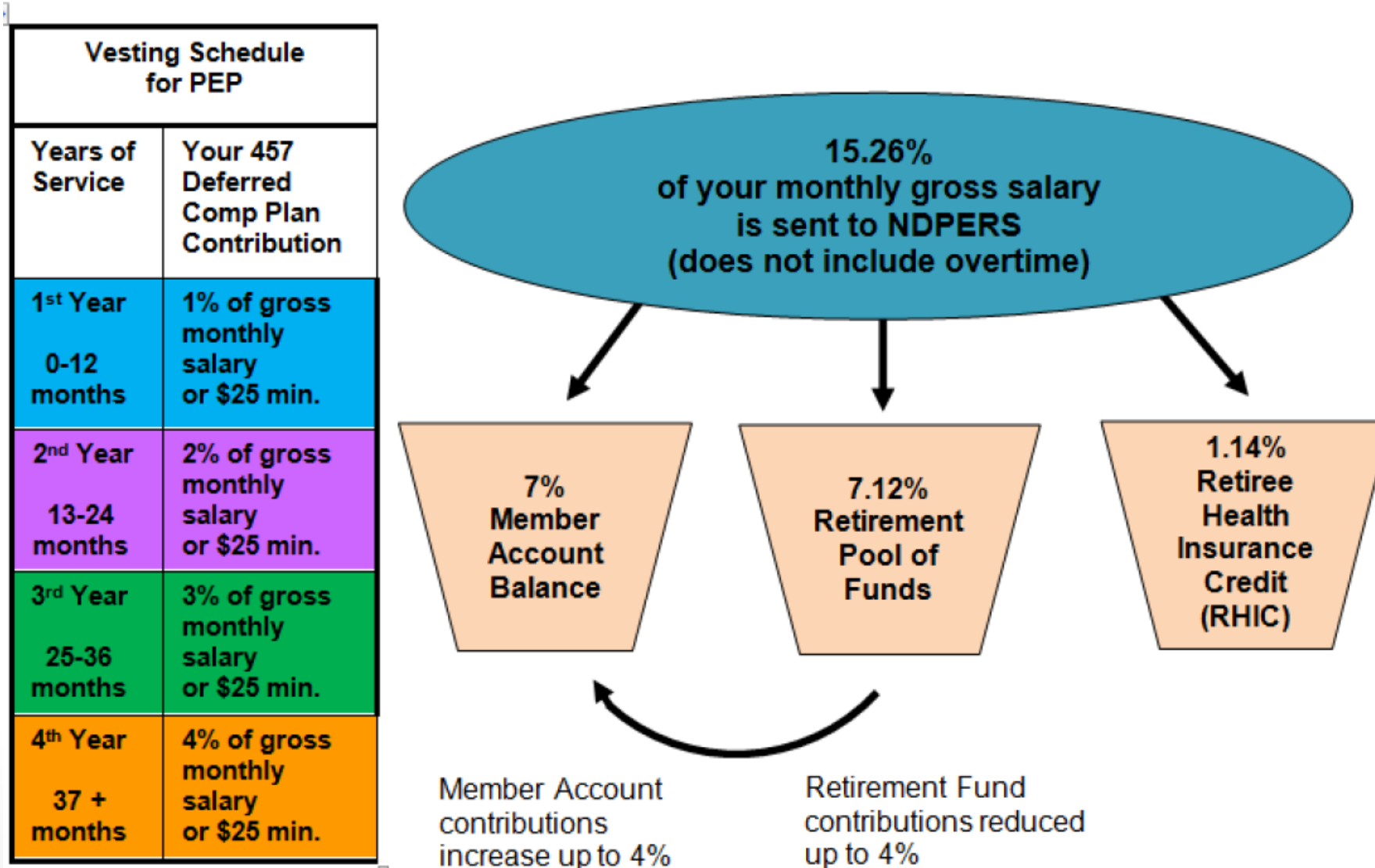
Main Retirement Plan

- Originally a Defined Contribution plan
- Became a Defined Benefit plan in 1977
- Became a Hybrid plan in 1999
 - Legislative Assembly approved legislation creating the Portability Enhancement Provision (PEP)
 - If a member makes contributions to the Section 457 Deferred Compensation Program, they have a portion of their employer contribution to the Hybrid plan added to their member account balance
 - If an employee resigns and chooses not to take a retirement benefit, the employee can rollover their member account balance, which includes that additional employer contribution and interest, to another retirement plan, or take a cash distribution
 - Having elements of both a Defined Benefit plan and a Defined Contribution plan make the Main PERS plan a Hybrid plan



Main Retirement Plan - PEP

How PEP Works with your monthly Defined Benefit Hybrid Plan Retirement Contributions



Main Retirement Plan

- $\text{Benefit} = \text{Final Average Salary (FAS)} \times \text{Service Credit} \times \text{Multiplier}$
- Multiplier:
 - 2% if hired before 1/1/2020
 - 1.75% if hired after 12/31/2019
- FAS changed for all non-retired members effective 1/1/2020
 - Previously the high 36 months from the last 15 years
 - After 1/1/2020 is the highest three 12-consecutive month periods from the last 15 years
 - Change was designed to equalize benefits regardless of whether members are paid monthly or bi-weekly
- Average benefit is \$1,343/month, or \$16,116/year
 - A corresponding DC account would need to be over \$400,000 to provide this benefit, assuming a 4% withdrawal every year



Main Retirement Plan Benefit Reductions

- Three tiers of retirement plan members, each tier has different benefits or requirements
 - The first tier, or the “85 Tier”, consists of members hired on or before December 31, 2015
 - Normal retirement for the 85 Tier is the earlier of age 65 or Rule of 85
 - The second tier, or the “90 Tier”, consists of members hired between December 31, 2015, and January 1, 2020
 - Normal retirement for the 90 Tier is the earlier of age 65 or Rule of 90 (minimum age of 60)
 - The third tier, or the “2020 Tier”, consists of members hired after December 31, 2019
 - Normal retirement is the same as the 90 Tier, but members do not receive the Retiree Health Insurance Credit (RHIC) and their retirement multiplier is 1.75% (rather than 2%, as with the 85 and 90 Tiers)
- New Tiers were an effort to reduce benefit costs to help improve Plan funding
 - $\text{Contributions} + \text{Investment Income} = \text{Benefits} + \text{Administrative Expenses}$



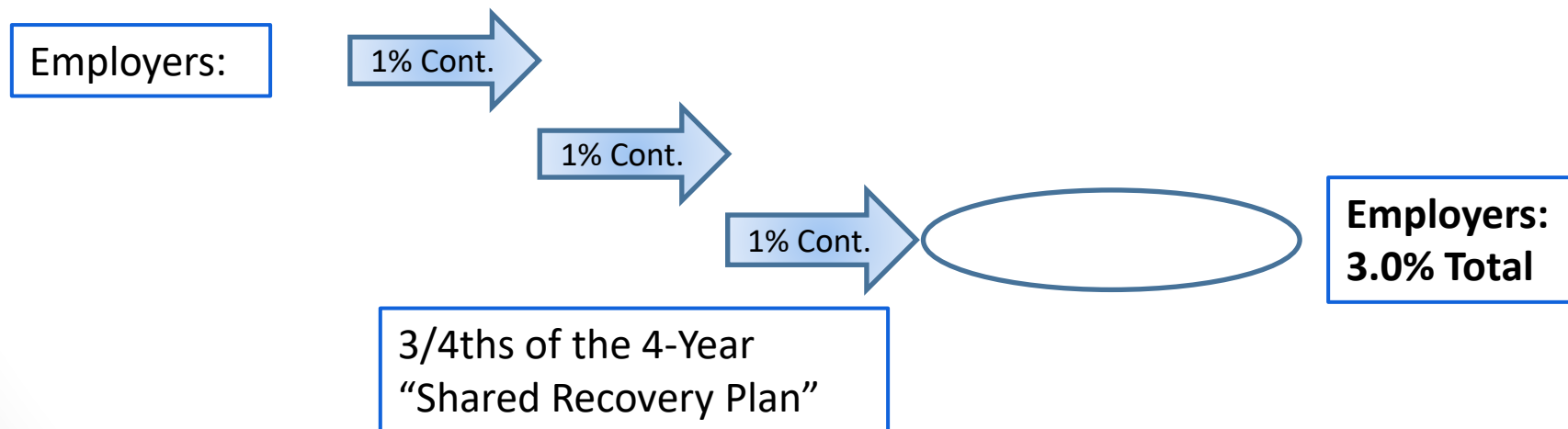
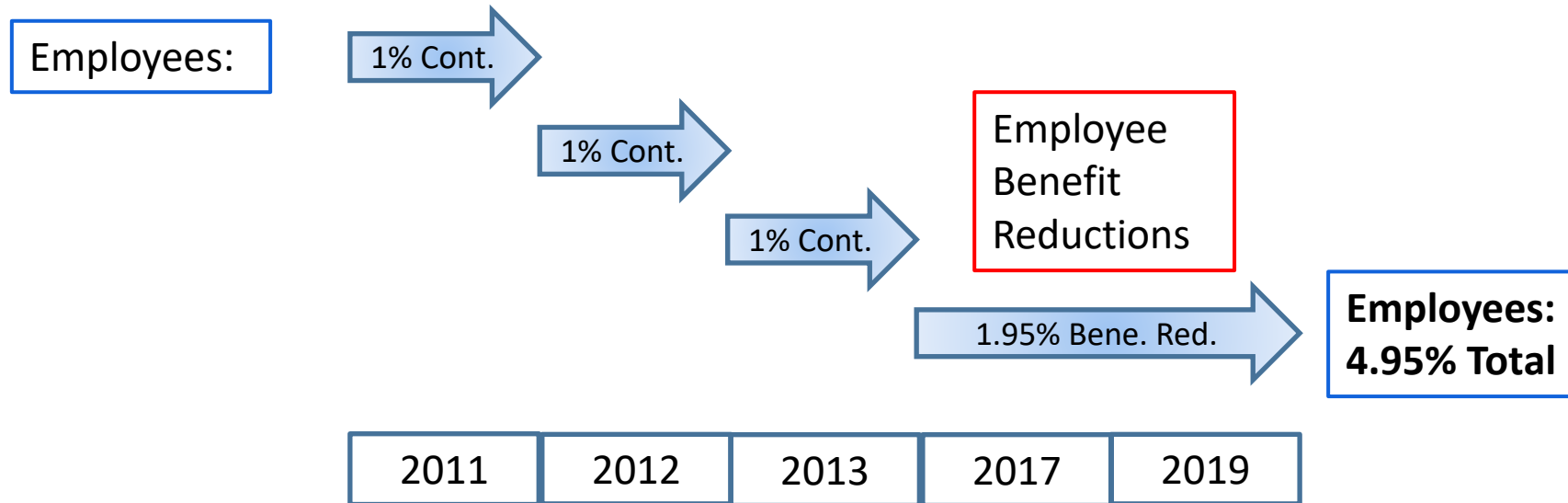
Main Retirement Plan Benefit Reductions

- Because of the benefit reductions, benefits for those hired after 12/31/2019 are 1.95 percent of pay less valuable than 85 Tier benefits
- The benefit reductions in the new tiers show that the risk in the DB/Hybrid plan is not completely with the employers

<u>Provision</u>	<u>Group</u>	<u>% of Pay</u>
Later Retirement Eligibility	New Hires after 12/31/2015	-0.50%
Lower Benefit Accrual Rate	New Hires after 12/31/2019	-1.10%
Elimination of RHIC Benefits	New Hires after 12/31/2019	-0.35%
Total Difference		<hr/> -1.95%



Contribution Increases + Benefit Reductions



Main Retirement Plan

- Contribution Rates:
 - 85 and 90 Tiers: 14.12%
 - 7.0% employee
 - 7.12% employer
 - 2020 Tier: 15.26%
 - 7.0% employee
 - 8.26% employer (7.12% employer contribution plus the RHIC contribution of 1.14% re-directed to Main Retirement Plan)
 - Combined, the employer contribution is about 7.16%
 - The State's contribution is from: 48% general fund, 44% special funds, and 8% federal funds
- Normal Cost: 11.19%
 - “Normal Cost” is the cost of current and future benefit accruals



Main Retirement Plan

- Actual contributions to the plan as provided by statute have not kept up with the Actuarially Determined Contribution (ADC) rate
 - Statutory Contribution Rate: 7% employee + 7.12% employer + 0.04% average diverted RHIC contribution for new members = 14.16% total
 - ADC as of 7/1/21: 19.46% - over 5% higher than the statutory contribution rate
- As a result, from 2009 to 2020 we had a contribution deficiency of more than \$500 million, which you can see in this table (all numbers in thousands):

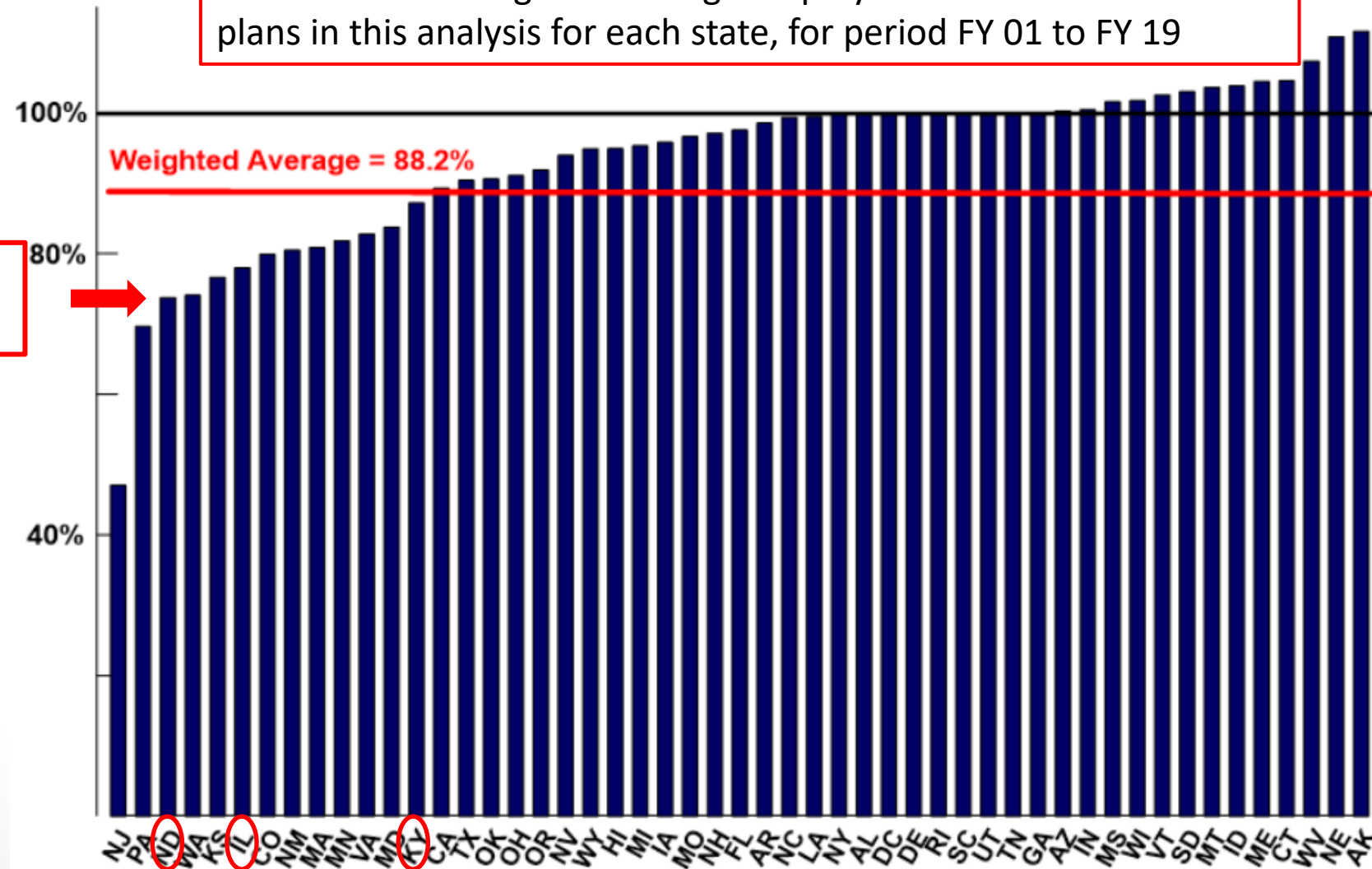
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially Determined Contribution	140,537	127,129	125,714	116,564	124,336	107,514	107,864	97,985	91,458	82,910	54,158	40,327
Contributions in Relation to the												
Actuarially Determined Contribution	<u>85,504</u>	<u>81,588</u>	<u>80,727</u>	<u>78,934</u>	<u>77,081</u>	<u>70,843</u>	<u>61,661</u>	<u>48,847</u>	<u>38,006</u>	<u>32,278</u>	<u>30,253</u>	<u>27,705</u>
Contribution Deficiency	55,033	45,541	44,987	37,630	47,255	36,671	46,203	49,138	53,452	50,632	23,905	12,622

- As of July 1, 2021, the Main Retirement Plan was 70.3% funded (actuarial value of assets)



Main Retirement Plan



Distribution of weighted average employer contributions made to plans in this analysis for each state, for period FY 01 to FY 19



Source:
National
Association of
State
Retirement
Administrators
(NASRA)



Main Retirement Plan

Plan Name	History of Contributions Received					
	FY 10 %	% ARC/ADC Received, FY 10 to FY 19	FY 19 %	10-Year Weighted Avg % ARC/ADC Received, FY 10 to FY 19	5-Year Weighted Avg % ARC/ADC Received, FY 10 to FY 14	5-Year Weighted Avg % ARC/ADC Received, FY 15 to FY 19
North Dakota PERS	56.0		64.2	58.0	48.7	64.7
North Dakota Teachers	76.5		98.5	93.5	84.5	99.8



Main Retirement Plan Closure Studies

- Interim Retirement Committee charged with the study mandated by HB 1209 – “Develop a plan for new hires under the Public Employees Retirement System main system to participate in the defined contribution plan and to close the defined benefit plan to new entries effective January 1, 2024.”
- Similar studies and analyses have been performed in the past
 - In 2014, the Legislative Assembly contracted with the actuarial firm Arthur J. Gallagher & Co., which determined that a one-time contribution of \$445 million was necessary if the DB plan was closed for all new employees. Unfortunately, this study did not address the eventual de-risking of the investment portfolio, which would have significantly increased that cost.
 - In the 2017-19 interim, this Committee considered a proposal to close the DB plan for state employees and deposit \$108 million additional funds every year. Even with those significant deposits, the plan was projected to become insolvent between 2040 and 2072. Importantly, this analysis did consider the de-risking.



Judges Retirement Plan

- Elected or appointed Supreme Court Justices and District Court Judges
- Benefit = FAS X Service Credit X Multiplier
- Multiplier:
 - 3.5% for first 10 years
 - 2.8% for second 10 years
 - 1.25% for service over 20 years
- Judges Retirement Plan was 114.7% funded as of 7/1/2021



Public Safety Retirement Plans

- Public Safety = both Law Enforcement and Firefighters
- Three distinct plans – one for members that have prior PERS service (higher employer contribution), and one for members without prior PERS service, and one state plan for Bureau of Criminal Investigation (BCI) employees.
- Benefit = FAS X Service Credit X Multiplier
- Multiplier = 2% if hired prior to 1/1/20; 1.75% if hired after 12/31/19
- Normal retirement = age of 55 or rule of 85
- Plan with prior service was 78.2% funded as of 7/1/2021
- Plan without prior service was 103.5% funded as of 7/1/2021



Highway Patrol Retirement Plan

- Members of the Highway Patrol
- $\text{Benefit} = \text{FAS} \times \text{Service Credit} \times \text{Multiplier}$
- Multiplier:
 - 3.6% for first 25 years
 - 1.75% for remaining years
- Highway Patrol Retirement Plan was 74.0% funded as of 7/1/2021
- The statutory contribution rate for the Highway Patrol plan is 12.43% of pay below the Actuarially Determined Contribution (ADC) rate
 - Contributions will be going up over the next four years



Job Service Retirement Plan

- A closed plan for Job Service employees
 - Employees hired after this plan was closed are members of the Main PERS plan
 - Because the plan is closed, we have significantly de-risked the investment portfolio – it is now 20% equities and 80% fixed income, with an assumed rate of return of 3.75%
- NDPERS took over the administration of this plan in 2001
- Three active members as of 7/1/2021
- 177 benefit recipients as of 7/1/2021
- The Job Service Plan was 147.7% funded as of 7/1/2021



Defined Contribution Plan

- Same contribution rate as the Main PERS Plan – 7% employee, 7.12% employer (plus RHIC contributions for those hired after 12/31/2019)
- Similar to a 401(k) plan in private business, there is no benefit formula for a DC plan
 - The member's account balance at the end of their career is their benefit
 - Member has all the investment and longevity risk
- There is also no formal disability benefit – a member only has access to their account balance
- Created by the Legislative Assembly in 1999
- Currently has 175 members (90 active) and assets of \$18.5 million (6/30/2021)



Defined Contribution Plan

NORTH DAKOTA PERS 401A DEFINED CONTRIBUTION PLAN

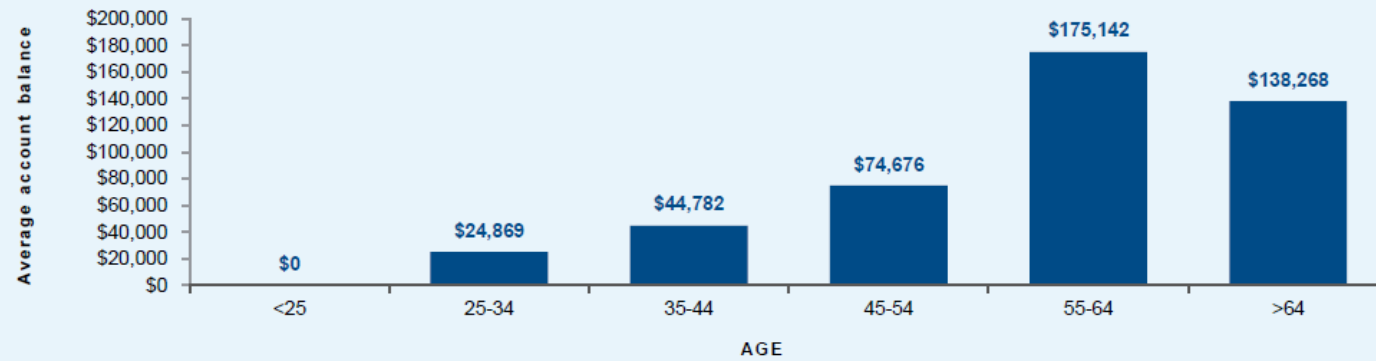
Active participants: Average account balance by age



Defined Contribution Plan

NORTH DAKOTA PERS 401A DEFINED CONTRIBUTION PLAN

Terminated participants: Summary



Age	<25	25-34	35-44	45-54	55-64	>64	Total
Total Terminated Participants	0	11	11	21	17	25	85
Terminated Participants as % of All Participants in Age Range	0%	33%	26%	40%	49%	86%	44%
Total Terminated Assets	\$0	\$273,560	\$492,607	\$1,568,189	\$2,977,412	\$3,456,696	\$8,768,464
Terminated Assets as % of All Plan Assets in Age Range	0%	21%	14%	24%	63%	95%	45%
# of Participants with <\$1,000 balance	0	0	0	0	1	0	1
# of Participants with >= \$1,000 and < \$5,000 balance	0	0	0	1	0	1	2

Average terminated employee account balance is \$103,158. Using the 4% withdrawal rate, this provides a yearly benefit of \$4,126.



Deferred Compensation Plan

- Supplementary pre-tax savings plan for public employees under section 457 of the Internal Revenue Code
- ~8,400 members (6,100 active) as of June 2021, with assets of \$183 million
- Nine different providers, including TIAA, which provides services for the NDPERS “Companion Plan”
- Participants who are also in the Main PERS Plan get the PEP advantage



Retiree Health Insurance Credit (RHIC)

- The RHIC program provides NDPERS retirees with a specific calculated benefit amount available for reimbursement in retirement years up to the amount of the retiree's eligible health insurance premium expenses
 - \$5 for every year of service credit, paid every month
 - Example: 20 years of service credit X \$5 = \$100 RHIC every month
- Health insurance premium expenses include vision and dental insurance premiums
- Insurance policies no longer need to be through NDPERS to qualify for reimbursement
- The RHIC was eliminated for Main retirement plan and DC plan employees first hired after December 31, 2019, and the 1.14% employer contribution is re-directed to the Main PERS plan or their DC accounts, respectively.



GROUP INSURANCE PLANS



Group Insurance Plans

- Three different Health Insurance plans for actives – Sanford Health Plan (SHP)
- Plan F and Part D plans for Medicare retirees – SHP and Express Scripts (through December 2021) and Humana (after 2021)
- Life Insurance – Voya
- Dental Insurance – Delta Dental
- Vision Insurance – Superior Vision
- Employee Assistance Program – The Village, CHI-St. Alexius Health, Live Well Solutions, Humana, and NexGen (selected by each agency)
- Flexible Compensation (FlexComp) Plan – administered by ASIFlex



Group Insurance Plans

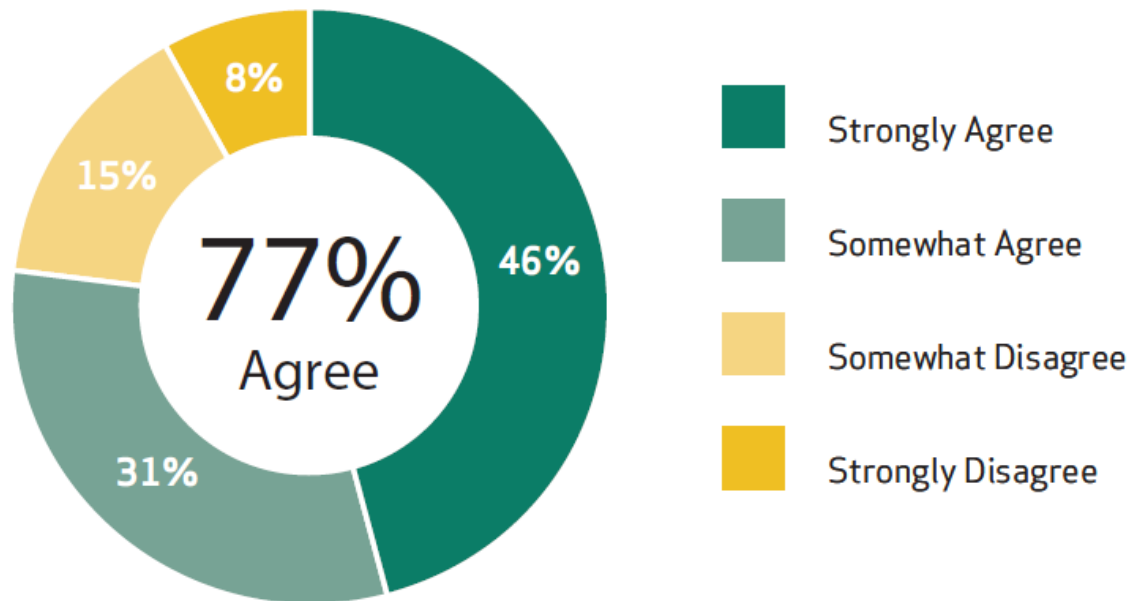
January 2021	GROUP INSURANCE PROGRAMS MANAGED AND ADMINISTERED BY NDPERS					
	<i>HEALTH</i>	<i>LIFE</i>	<i>DENTAL</i>	<i>VISION</i>	<i>EAP</i>	<i>FLEXCOMP</i>
PARTICIPATING EMPLOYERS						
State	96	96	96	96	96	78
Counties	29	37				
School Dist	17	18				
Cities	29	27				
Others	51	32	20	20	20	4
	222	210	116	116	116	82
EMPLOYEES						
State	14,607	15,102	8,508	9,142	15,123	2,395
Legislators	135	142				
Counties	1,353	2,882				
School Dist	1,210	102				
Cities	660	248				
Others	499	393			257	44
Retirees	6,796	3,259	3,698	3526		
COBRA	198		47	46		
	25,458	22,128	12,253	12,714	15,380	2,439
Covered Lives	59,814					



Health Plan

Figure 24: **77% of state and local employees say healthcare benefits is one reason for selecting a public sector job.**

To what extent do you agree or disagree with the following statement:
Healthcare benefits is one reason I selected a public sector job.



Source: "State and Local Employee Views on Their Jobs, Pay and Benefits" by Tyler Bond and Kelly Kenneally, National Institute on Retirement Security, 2019



Health Plan

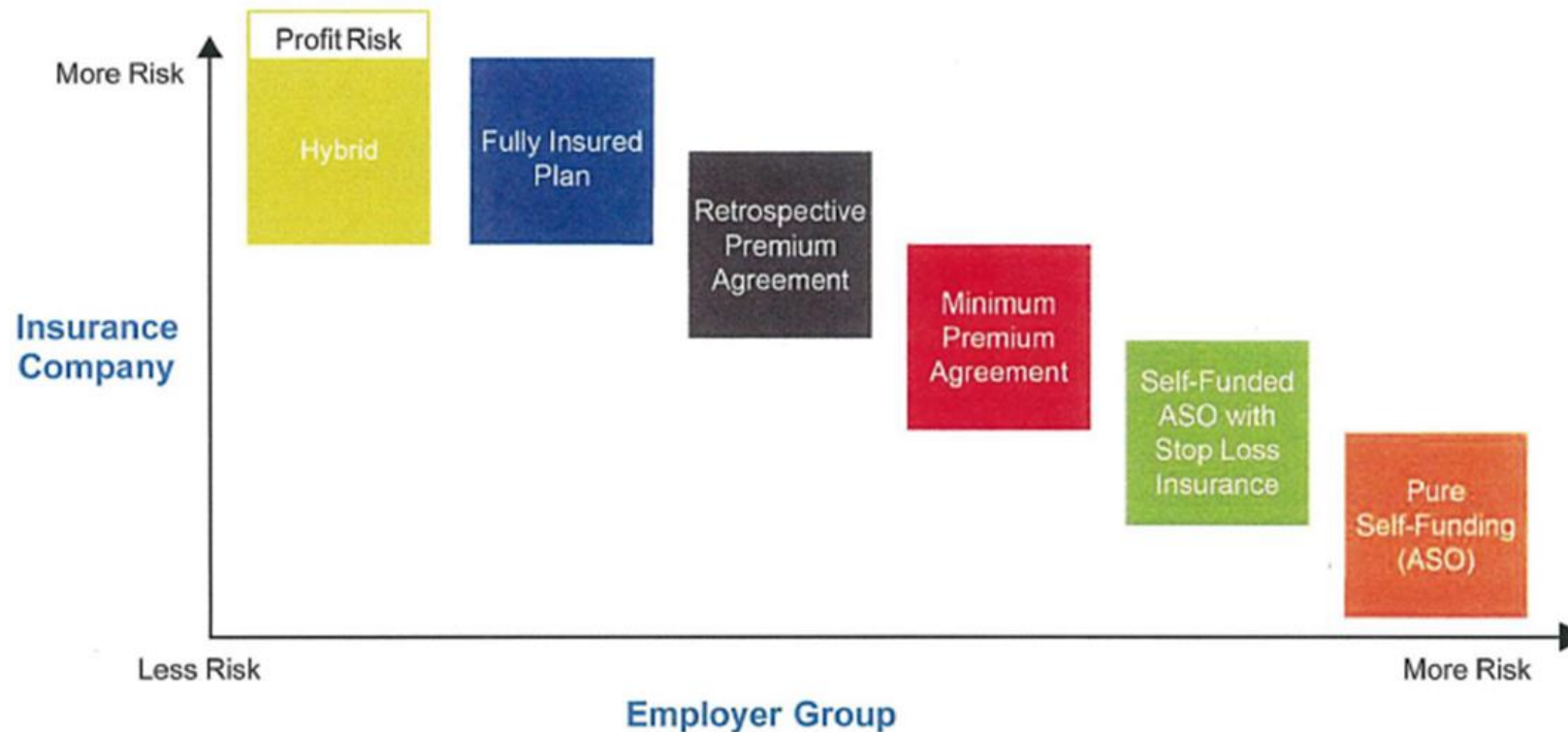
- Originally fully insured from 1977-1983 with BCBS as the Third-Party Administrator
- In 1983 it became a self-insured plan
- In 1989 the self-insured plan essentially went bankrupt, and we were able to transition to a modified fully-insured structure with BCBS
 - Modified fully-insured structure: NDPERS shared 50/50 in losses up to \$6 million, but no more than that, and shared 50/50 in gains up to \$3 million, and took all gains above \$3 million
 - Gains are added to our reserves – currently ~ \$28 million
- In 2015, after a Request for Proposals procurement process, we transitioned to Sanford Health Plan (SHP) with the same modified fully-insured structure
- In 2017 we negotiated the elimination of the loss sharing, while retaining the gain sharing
 - As such, right now the state has none of the risk from the health plan, and shares 50/50 in all the gain for the first \$3 million, and takes all the gain above \$3 million
 - This is tantamount to having a fully-insured plan for losses, but having nearly all the gain possibility from a self-insured plan



Health Plan

Spectrum from Fully Insured to Self-Insured

Who Assumes the Risk?



Health Plan

- Three options:
 - Grandfathered PPO Plan – “Grandfathered” under the Affordable Care Act
 - State and most political subdivisions
 - Non-Grandfathered PPO Plan – for large (51+ employees) political subdivisions only (currently only one)
 - The “large” requirement is from federal law, not state law
 - Non-Grandfathered High Deductible Health Plan (HDHP) – State and large (51+) political subdivision employees
 - State employees have the option of electing the HDHP
 - The state contributes to a Health Savings Account (HSA) to encourage participation
 - If a political subdivision elects to offer the HDHP to its employees, that is the only health plan they can offer. If they later want to offer a PPO instead, they can only offer the non-grandfathered PPO.
 - The state does not administer the HSA for a political subdivision



Health Plan - Wellness

- Studies show that wellness programs within health plans can have a measurable impact on plan costs going forward
 - A significant portion of health care spending increases in the last 15 years has been due to modifiable population risk factors
- NDPERS has focused wellness efforts at two levels:
 1. Employer – required by NDCC section 54-52.1-14
 - Participating employers receive a 1% premium discount
 - Employer program covers 97% of employees (with 67% of employers participating)
 2. Employee



Health Plan - Wellness

- The NDPERS Health Plan has several employee wellness programs built into it
 - About the Patient Program – helps diabetes patients comply with their treatment plan
 - Diabetes Prevention Program – helps at-risk individuals make lifestyle choices that can help prevent diabetes
 - Healthy Pregnancy Program – assists expectant mothers to reduce high-cost pregnancies
 - Fitness center reimbursement – up to \$20 monthly with 12 visits
 - Exercise is Medicine – Fargo and Bismarck-based fitness center classes
 - \$250 Wellness Incentive
 - Available to both the employee and their covered spouse
 - Provided by our health carrier as part of the premium
 - Earn either through:
 - Wellness Portal – an online website that encourages physical fitness and rewards individuals for obtaining wellness goals
 - Participate in programs and challenges
 - Earn Points for redemption
 - Fitness center reimbursement - \$20 per month reimbursement if attend fitness center 12 days/month



Health Plan - Contract

- Statute allows the Board to enter a two-year contract, and award additional two-year extensions
- We went out to bid for the 2021-23 biennium, and again awarded the plan to SHP
- In that RFP, we solicited bids for every type of coverage
 - Bundled health and Rx under the modified fully-insured arrangement and under a self-insured structure
 - Separate (unbundled) health and Rx, potentially with the modified fully-insured arrangement and self-insured
 - Under any of these possibilities, Rx will now have to be with a transparent Pharmacy Benefit Manager (PBM)



Health Plan - Retirees

- Bundled Plan F (medical) and Part D (Rx) plan for our retirees
- The Board has considered unbundling these, and moving from a Plan F to a Plan G
 - No action yet – we continue to monitor and consider
 - Adverse selection concerns



Other Insurance Plans

- Life Insurance – Voya
- Dental Insurance – Delta Dental
- Vision Insurance – Superior Vision
- All are voluntary (although if an employer offers life insurance, employees are required to participate in the basic life plan)
- All are available to our retirees if application is made within 31 days of a qualifying event (life insurance only available if they were on the plan when they retired)
- Retirees may use Retiree Health Insurance Credit (RHIC) monies for any Health, Prescription Drug, Dental, Long-Term Care, and Vision coverages regardless of whether they get the coverage through NDPERS



Employee Assistance Program

- Primarily to provide support to employees to help them deal with personal or work-related problems, including counseling
- Available to all permanent state agency employees
- Each agency picks one of the available vendors for their employees – The Village, CHI-St. Alexius Health, Live Well Solutions, Humana (over 51 employees), or NexGen
- Vendor options are determined through a bid process, but all vendors meeting the minimum qualifications who will sign our contract are available for employers



Flexcomp Program

- Allows employees to elect to have a pre-tax deduction from their salary to use for one of three purposes:
 1. Pre-tax eligible premiums (premium conversion)
 2. Medical Flexible Spending Account (FSA)
 3. Dependent Care Flexible Spending Account (FSA)
- NDPERS does not administer the Flexcomp Program for Higher Education employees



SUMMARY



Summary – Plans and Participation

- Deferred comp – 227 employers with 16,797 members
- Defined contribution – 96 employers and 127 total members
- Dental plan – 116 employers and 12,656 members covering 28,537 lives
- EAP program – 116 employers with 15,380 members
- Health plan – 222 employers and 25,357 members covering 58,660 lives
- HP plan – 1 employer and 329 total members
- Job Service plan – 1 employer and 185 total members
- Judges – 1 employer and 119 members
- Life plan – 210 employers and 22,128 members



Summary – Plans and Participation

- Main plan – 445 employers and 50,315 members
- Public Safety with prior service – 29 employers and 1206 members
- Public Safety without prior service – 11 employers and 335 members
- State law enforcement – 2 employers and 70 members
- Vision Plan – 116 employers and 12,921 members covering 29,429 lives
- RHIC plan with 34,057 active and retired members
- National Guard – 6 members
- Flex plan – 2,439 members participating with deferrals ~\$5.5M



Questions?

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